

UNIVERSITY OF CENTRAL FLORIDA (UCF) ACG3173 ACCOUNTING FOR DECISION-MAKERS EXAM 3 PRACTICE (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What is the effect on assets when a dividend is paid?**
 - A. Assets increase
 - B. Assets remain the same
 - C. Assets decrease
 - D. Assets are reclassified
- 2. Which financial statement provides a snapshot of a company's financial position at a specific moment in time?**
 - A. Income statement
 - B. Statement of cash flows
 - C. Balance sheet
 - D. Statement of shareholders' equity
- 3. What is the treatment of Unrealized Gain/Loss for Marketable Securities?**
 - A. Recorded as revenue
 - B. Recorded on the income statement
 - C. Recorded in equity
 - D. Recorded directly in the asset account
- 4. Which financial ratio is most focused on liquidity?**
 - A. Gross profit margin
 - B. Debt-to-equity ratio
 - C. Acid-test ratio
 - D. Return on equity
- 5. What financial statement element is evaluated by GAAP standards?**
 - A. Tax liabilities
 - B. Financial Statement Income Tax Expense
 - C. Operational profits
 - D. Cash equivalents
- 6. Which of the following describes a liability?**
 - A. Assets that are fully paid for by the company
 - B. Obligations that a company owes to external parties
 - C. Revenue generated by the company over time
 - D. Long-term investments made by the company

7. What is a flexible budget?

- A. A budget that adjusts to changes in the volume of activity
- B. A fixed budget that remains unchanged during the period
- C. A budget that is only used for capital expenditures
- D. A budget that only considers cash inflows and outflows

8. What is the purpose of ratio analysis?

- A. To determine the forecasting methods for future sales.
- B. To assess the financial performance and condition of a company.
- C. To analyze tax obligations.
- D. To evaluate customer satisfaction levels.

9. When stock dividends are distributed, what happens to the total stockholder's equity?

- A. Total stockholder's equity increases
- B. Total stockholder's equity decreases
- C. No change in total stockholder's equity
- D. Total stockholder's equity is eliminated

10. What characterizes a periodic inventory system?

- A. It updates inventory balances continuously
- B. It requires inventory counts only at year-end
- C. It updates inventory balances periodically rather than in real-time
- D. It eliminates the need for inventory management

Answers

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1. C
2. C
3. C
4. C
5. B
6. B
7. A
8. B
9. C
10. C

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Explanations

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1. What is the effect on assets when a dividend is paid?

- A. Assets increase
- B. Assets remain the same
- C. Assets decrease**
- D. Assets are reclassified

When a dividend is paid, the company distributes a portion of its earnings to shareholders. The payment of dividends typically involves the outflow of cash or a reduction in the company's retained earnings. As a result, when dividends are declared and paid, the company's cash (an asset) decreases. This reduction in cash directly impacts the total assets of the company by lowering their overall asset base. While retained earnings are also part of equity and are reduced, the immediate effect on assets is a decrease due to the cash outflow. This situation makes it clear that the correct choice is that assets decrease, reflecting the reduction in cash or other assets used to pay the dividends. The other options do not accurately depict the financial consequences of dividend payments on the company's assets.

2. Which financial statement provides a snapshot of a company's financial position at a specific moment in time?

- A. Income statement
- B. Statement of cash flows
- C. Balance sheet**
- D. Statement of shareholders' equity

The balance sheet is the financial statement that provides a snapshot of a company's financial position at a specific moment in time. It presents a summary of a company's assets, liabilities, and shareholders' equity, allowing stakeholders to assess the company's financial health at that particular point. This statement is particularly important for understanding how resources are financed, whether through debt or equity, and provides insight into the organization's liquidity and financial stability. Unlike the income statement, which covers a period of time and focuses on revenues and expenses, the balance sheet captures the company's financial status as of the date it is prepared. The statement of cash flows focuses on the cash inflows and outflows over a period, detailing how cash is generated and used, while the statement of shareholders' equity outlines changes in equity but does not provide an overall financial position snapshot. Each statement has its own purpose, but for a specific moment in time, the balance sheet is the definitive choice.

3. What is the treatment of Unrealized Gain/Loss for Marketable Securities?

- A. Recorded as revenue
- B. Recorded on the income statement
- C. Recorded in equity**
- D. Recorded directly in the asset account

The treatment of unrealized gains and losses for marketable securities is recorded in equity. This accounting practice applies primarily to securities classified as "available-for-sale," where unrealized gains and losses are recognized in other comprehensive income and subsequently included in shareholders' equity on the balance sheet, rather than on the income statement. This treatment reflects the principle that unrealized gains and losses do not represent actual cash inflows or outflows until the securities are sold. By including these unrealized amounts in equity, the financial statements provide a more comprehensive view of the company's financial position, allowing stakeholders to see the potential impacts on equity without recognizing these fluctuations as current revenue or expenses. On the other hand, recording unrealized gains or losses as revenue or on the income statement would misrepresent the actual income and performance of the company, as these amounts have not been realized through a transaction. Recording them directly in the asset account would not accurately reflect the changes in market value and could distort the financial statements. Thus, the correct treatment aligns with the overall objective of fair financial reporting and provides clarity to users of the financial statements.

4. Which financial ratio is most focused on liquidity?

- A. Gross profit margin
- B. Debt-to-equity ratio
- C. Acid-test ratio**
- D. Return on equity

The acid-test ratio, also known as the quick ratio, is specifically designed to measure an entity's short-term liquidity. It assesses the ability of a company to meet its short-term obligations using its most liquid assets. This ratio is calculated by taking current assets that can be quickly converted into cash (like cash and cash equivalents, accounts receivable) and dividing them by current liabilities. A high acid-test ratio indicates that a company has sufficient liquid assets to cover its current liabilities, reflecting a strong liquidity position. This is crucial for businesses as it shows their capacity to pay off short-term debts without relying on the sale of inventory, which can be less liquid. In contrast, the gross profit margin focuses on the profitability of a company's sales relative to its cost of goods sold. The debt-to-equity ratio evaluates a company's financial leverage and how much of its financing is provided by debt versus equity. Return on equity measures how effectively management is using a company's assets to create profits. Although these ratios are important for various financial analyses, they do not specifically address liquidity in the same way the acid-test ratio does.

5. What financial statement element is evaluated by GAAP standards?

- A. Tax liabilities
- B. Financial Statement Income Tax Expense**
- C. Operational profits
- D. Cash equivalents

The correct choice focuses on "Financial Statement Income Tax Expense," which is a specific element evaluated under Generally Accepted Accounting Principles (GAAP). This reflects the company's obligation to pay income taxes for the reporting period and is based on the organization's income. GAAP standards specify how to recognize, measure, and present income tax expense in financial statements, ensuring consistency and comparability across entities. Income tax expense is reported in the income statement, and adherence to GAAP helps investors and stakeholders understand how taxes impact profitability and the company's financial health. The guidance provided by GAAP ensures that all relevant tax information is disclosed in a clear manner, allowing for better decision-making by external users of financial statements. By contrast, tax liabilities, operational profits, and cash equivalents, though also critical components of financial statements, do not have the same level of specific recognition and measurement requirements solely within GAAP as income tax expense does. This is why the focus on income tax expense is significant within the context of GAAP evaluations.

6. Which of the following describes a liability?

- A. Assets that are fully paid for by the company
- B. Obligations that a company owes to external parties**
- C. Revenue generated by the company over time
- D. Long-term investments made by the company

The concept of a liability in accounting is best described as an obligation that a company owes to external parties. This can include debts, loans, accounts payable, and other financial commitments that the company must settle in the future. Liabilities represent the company's future sacrifices of economic benefits that are owed to other entities, reflecting the company's financial responsibilities. In accounting, distinguishing between liabilities and other financial elements is crucial for understanding a company's financial health. For instance, assets refer to resources owned by the company, revenues are the income generated from operations, and investments are made with the aim of generating returns. By recognizing that liabilities specifically denote obligations towards external parties, one gains insight into the overall financial structure and stability of a business. This understanding plays a crucial role in decision-making regarding financing strategies and assessing the company's solvency.

7. What is a flexible budget?

- A. A budget that adjusts to changes in the volume of activity**
- B. A fixed budget that remains unchanged during the period
- C. A budget that is only used for capital expenditures
- D. A budget that only considers cash inflows and outflows

A flexible budget is designed to adapt to changes in the volume of activity or production levels. It allows for adjustments in budgeted figures based on the actual level of output or other relevant metrics, such as sales volume. This adaptability is crucial because it provides a more accurate reflection of expected revenues and expenses under varying conditions, allowing managers to assess performance relative to actual operational levels rather than theoretical or fixed amounts. This approach contrasts sharply with fixed budgets, which remain static regardless of actual operations. Fixed budgets can lead to misleading variances when business activity fluctuates. In terms of usage, flexible budgets are not restricted to capital expenditures; they are applicable across various budget categories, including operational budgets. Additionally, while considering cash inflows and outflows is important for budgeting, a flexible budget also encompasses other aspects of financial performance, making it broader than just cash flow considerations. Thus, the ability of a flexible budget to respond to real-time changes provides valuable insights for decision-making.

8. What is the purpose of ratio analysis?

- A. To determine the forecasting methods for future sales.
- B. To assess the financial performance and condition of a company.**
- C. To analyze tax obligations.
- D. To evaluate customer satisfaction levels.

Ratio analysis serves as a crucial tool for assessing the financial performance and condition of a company. This technique utilizes various financial ratios derived from a company's financial statements to evaluate its operational efficiency, profitability, liquidity, and solvency. Analysts and decision-makers can gain insights into how well a company is managing its resources, its level of debt, and overall financial health. By comparing these ratios over different periods or against industry benchmarks, stakeholders can make informed decisions regarding investments, credit assessments, and strategic planning. Ratio analysis thus provides a snapshot of a company's financial stability and helps identify trends and areas for improvement. The other options focus on aspects that are not the primary goal of ratio analysis. For example, forecasting future sales pertains to predictive analytics, while analyzing tax obligations and evaluating customer satisfaction levels require different methodologies and data sets distinct from financial ratio analysis.

9. When stock dividends are distributed, what happens to the total stockholder's equity?

- A. Total stockholder's equity increases
- B. Total stockholder's equity decreases
- C. No change in total stockholder's equity**
- D. Total stockholder's equity is eliminated

When stock dividends are distributed, total stockholder's equity remains unchanged. This is because a stock dividend does not constitute a distribution of cash or assets; instead, it involves issuing additional shares to existing shareholders. In accounting terms, the value of the stock dividend is transferred from retained earnings to paid-in capital. As a result, while the number of outstanding shares increases and the company's retained earnings decrease by the same amount, the overall total stockholder's equity does not fluctuate. This is a key point in understanding how stock dividends function—though shareholders receive more shares, the market value of each share typically adjusts accordingly, leaving the total equity unchanged. This concept is vital because it emphasizes that stock dividends are more about providing shareholders with additional ownership in the company, without actually impacting the overall financial position of the company in terms of equity.

10. What characterizes a periodic inventory system?

- A. It updates inventory balances continuously
- B. It requires inventory counts only at year-end
- C. It updates inventory balances periodically rather than in real-time**
- D. It eliminates the need for inventory management

A periodic inventory system is characterized by the way it updates inventory balances. Unlike a perpetual inventory system, which continuously tracks inventory levels and updates balances in real-time with each purchase or sale, a periodic system only updates inventory balances at specific intervals, such as weekly, monthly, or quarterly. This means that businesses using a periodic system will conduct physical counts of their inventory at set intervals to determine the amount of inventory on hand and update their records accordingly. This method can be more practical for businesses with less complex inventory systems or for those that do not require real-time data for decision-making. It allows for simpler record-keeping since transactions are summarized over a period rather than recorded individually. The other options do not accurately reflect the characteristics of the periodic inventory system. Continuous updates refer to a perpetual system, and while inventory counts may often occur at year-end, they are not limited to this time frame in a periodic system. Furthermore, a periodic inventory system does not eliminate the need for inventory management; it simply changes how inventory data is recorded and managed.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://ucf-acg3173-exam3.examzify.com>

We wish you the very best on your exam journey. You've got this!

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